

Master Document – Audit Program

Activity Code 17330		Reconciliation of Contracts
Version 1.0, October 2004		
B-1	Planning Considerations	
Purpose and Scope		
<p>This program provides a logical sequence to the effort required to perform an audit of a contractor prepared reconciliation. It should reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives. The steps in the program are intended as general guidance and should be expanded or eliminated as necessary to fit the audit.</p>		
<p>1. The purpose of a DCAA audit of a contractor prepared reconciliation is to produce an audit report that will be used by Governmental agencies as a basis to support required contract closing actions. Reconciliations can be prepared on both fixed price and cost reimbursable type contracts. The audit report will provide the necessary data that will allow DFAS to close the contract in the Mechanization of Contract Administration Services (MOCAS) System. The audit report will form the basis for any adjustments to MOCAS data to accomplish the closing.</p>		
<p>2. The audit of a contractor prepared reconciliation will be performed through coordination with DFAS, DCMA, the buying office, and the contractor. The goal of the process is to close out contracts by avoiding duplicate reconciliation efforts, while optimizing business decisions based upon the best available data. MOCAS data is shared with the contractor in order to assure that the reconciliation is as accurate and complete as possible before the audit begins. In preparing the reconciliation, the contractor will use its own files and records, as well as information provided by the Government. DCAA performs an audit of the contractor prepared reconciliation. DFAS-Columbus relies on the DCAA report and the contractor reconciliation to close the contract. Final payments, if any, are made to either the Government or the contractor, and the Government records are updated to reflect a closed contract.</p>		
<p>3. The contractor is responsible for preparing the reconciliation. The purpose of the reconciliation is to determine the amount owed or due to the contractor, if any, and to correct imbalances in MOCAS. Audit issues are openly discussed with the contractor as they arise. To facilitate settlement of audit issues, all attempts are made to ensure that there is agreement on the final audit results.</p>		

B-1	Preliminary Steps:	
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Prior to performing the reconciliation audit, some preliminary effort is necessary to ensure the audit results in the most efficient use of resources. Auditors should perform the following steps:	
1. Verify that the contractor has been briefed on the initiative and agrees to participate.	
2. Verify that coordination has occurred with the region's designated DFAS Task Force representative and/or DCAA Financial Liaison Advisor (FLA) at DFAS regarding the selection of this contract for reconciliation, and either the region DFAS Task Force representative or the FLA at DFAS has confirmed that the Government records are sufficient to support the amounts that are currently in MOCAS for the subject contract.	
3. Verify that the contractor's billing and payment records sufficiently identify costs by ACRN for the subject contract or can be mapped to ACRN using costs by CLIN (coordination with the regional DFAS Task Force representative may be helpful in making this determination).	
If records are not sufficient to perform a reconciliation, do not expend any further effort, and document this in a MEMORANDUM FOR FILE.	
4. Request the obligation and disbursement data (MOCAS History Report and Contingent Liability Report (CLR)) for the subject contract from the DCAA FLA at DFAS or the regional Task Force representative. The MOCAS history report shows the detailed obligation and disbursement transactions on the contract. The CLR provides summary data only, but it is the recognized official database to which the reconciliation totals must match. If the totals in the two reports do not match, coordinate with the regional Task Force representative or the FLA to obtain reports with corrected amounts.	
5. Prepare a coordination memorandum for DFAS requesting their concurrence to proceed with the reconciliation.	
6. Inform the ACO and the PCO about the planned reconciliation effort on this contract and the final DFAS decision.	
7. Determine whether the contractor has policies and procedures for performing reconciliations and document your understanding of those procedures, if applicable.	
8. Provide the MOCAS data and other applicable data obtained from the ACO/PCO to the contractor to prepare the reconciliation and establish a due date for the submission.	
9. Determine if there is additional data the contractor needs that should be obtained from the ACO/PCO and request the data.	

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10. Obtain and review the contractor's reconciliation to ensure that it was prepared in accordance with its reconciliation procedures, if applicable.	
11. Perform a cursory review of the contractor's reconciliation to ensure it includes a schedule of the basic contract and all contract modifications, with the modification date, description, affected CLIN(s), and adjustments to contract price and funded amount. Ensure that all recommended adjustments or modifications are identified and adequately explained.	
12. Review the contractor's reconciliation submission to ensure it includes a schedule of all billings and payments on the contract. This schedule should identify:	
a. If applicable, all progress payments, along with all invoice billings that identify gross billed amount, the applicable progress payment liquidation amount, and the amount paid;	
b. Any direct payments and refunds made on the contract caused by quarterly limitation of payment (QLOP) submissions;	
c. Any differences between the contractor-determined funded amount and obligation data in MOCAS; and;	
d. Any differences between what should have been paid for a particular invoice and what was actually paid. These invoices generally form the basis for further review during the DCAA audit, and may be the primary cause for discrepancies in the Governmental records.	
13. Ensure that all adjustments/payments requested as identified by the contractor are adequately explained and documented.	
14. Ensure that the contractor's reconciliation includes all the contract obligation and disbursements by ACRN for all ACRNs contained in the CLR report.	
15. Consider the results of prior audits for potential impact on the current audit scope.	
16. Document the assessment of any contractor internal controls applicable to this audit.	
17. Determine the need for technical assistance and assist audits.	

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<p>18. In planning and performing the examination, review the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and • CAM Figure 4-7-3. <p>Document in working paper B any identified fraud risk indicators and your response/actions to the identified risks (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.</p>	
<p>19. Provide a copy of the concurrence memo received from DFAS to the FLA at DFAS for registration of the contract in the DFAS reconciliation database.</p>	
<p>20. Summarize the results of the preliminary steps on working paper B.</p>	

C-1	Obligations - Contract Pricing and Funding	
Version 1.0, October 2004		WP Reference
1. For FFP Contracts:		
a. Review the contractor's obligation reconciliation and note any differences in the comparisons of the MOCAS obligated and definitized price amounts and the contractor's identified obligation amounts.		
b. Verify that all modifications are included in the contractor prepared reconciliation. The last modifications issued under the contract are easy to overlook. These modifications may have de-obligated funds on the contract, and may even have reduced the contract price. Take the necessary steps to coordinate with all parties to ensure that all relevant modifications have been included in the contractor's reconciliation.		
c. Verify price and funded amounts to source documents. Trace amounts to modifications where differences were identified between the contractor's reconciliation and the current MOCAS history and CLR reports. Discuss any identified differences with the contractor and review the basis and any other supporting documentation for their recommended amounts. Source		

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documents may include:	
<ul style="list-style-type: none"> • Basic contract and modifications • Progress payments • DD 250's <p>Obtain contractor concurrence for any differences in the contractor's recommended amounts that resulted from review of their supporting documentation.</p>	
d. Coordinate the results of the verification of contract price and funding with the contractor and Government representatives (i.e., DFAS, DCMA, etc.).	
2. For Cost Type Contracts:	
a. Review the contractor's obligation reconciliation and note any differences in the comparisons of the MOCAS obligated and definitized price amounts and the contractor's identified obligation amounts.	
b. Verify that all modifications are included in the contractor prepared reconciliation. The last modifications issued under the contract are easy to overlook. These modifications may have de-obligated funds on the contract, and may even have reduced the contract price. Take the necessary steps to coordinate with all parties to ensure that all relevant modifications have been included in the contractor's reconciliation.	
c. Verify price and funded amounts to source documents. Trace amounts to modifications where differences were identified between the contractor's reconciliation and the current MOCAS history and CLR reports. Discuss any identified differences with the contractor and review the basis and any other supporting documentation for their recommended amounts. Obtain contractor concurrence for any differences in the contractor's recommended amounts that resulted from review of their supporting documentation.	
d. Coordinate the results of the verification of contract price and funding with the contractor and Government representatives (i.e., DFAS, DCMA, etc.).	

D-1	Disbursements - Billing and Payment Receipts	
Version 1.0, October 2004		WP Reference
1. For FFP Contracts:		

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<p>a. Verify that the contractor's billing and payment receipt information included on the reconciliation is supportable by source documents. Trace these items to source documents paying particular attention to the items where there is a variance between the MOCAS disbursement amount and the contractor's billed and receipt amounts. Source documents may include:</p> <ul style="list-style-type: none"> • Contractor accounts receivable/billing/accounting records. • Contractor invoices, progress payments, QLOPs, etc. • Contractor correspondence on billing/payment/contract issues. • Progress payments • DD 250s 	
<p>b. Compare MOCAS disbursement amounts to the contractor billed amounts by ACRN. Identify the ACRNs, shipments, and/or invoices where differences occur. Determine the reasons for the differences and discuss them with the contractor. Reconciliation of progress payment liquidations, timing of deliveries, and delivery payments may be necessary to ensure that no overpayments were made to the contractor resulting from improperly liquidated invoices. Ensure that the contractor is not claiming to be paid for items that were never delivered to the Government.</p>	
<p>c. Determine the actual transaction adjustments needed, by invoice, at the ACRN level to correct contract line item (CLIN) disbursements and obtain the contractor's concurrence as necessary.</p>	
<p>d. Coordinate with contractor and Government personnel to obtain a thorough understanding of any withholds or other issues that impact the adjustment(s) and/or final payment(s) on the contract. Coordinate the results of the verification of contract billing and payment receipts (disbursements) with the contractor and Government representatives (i.e., DFAS, DCMA, etc.).</p>	
<p>2. For Cost Type Contracts:</p>	
<p>a. Verify that the contractor's billing and payment receipt information included on the reconciliation is supportable by source documents. Trace these items to source documents paying particular attention to the items where there is a variance between the MOCAS disbursement amount and the contractor's billed and receipt amounts. Source documents may include:</p> <ul style="list-style-type: none"> • Contractor accounts receivable/billing/accounting records. • Contractor invoices or public vouchers. • Contractor correspondence on billing/payment/contract issues. 	

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b. Compare MOCAS disbursement amounts to the contractor billed amounts by ACRN. Identify the ACRNs where differences occur. Determine the reasons for the differences and discuss them with the contractor.	
c. Determine the actual transaction adjustments needed, by invoice, at the ACRN level to correct contract line item (CLIN) disbursements and obtain the contractor's concurrence as necessary.	
d. Coordinate with contractor and Government personnel to obtain a thorough understanding of any withholds or other issues that impact the adjustment(s) and/or final payment(s) on the contract. Coordinate the results of the verification of contract billing and payment receipts (disbursements) with the contractor and Government representatives (i.e., DFAS, DCMA, etc.).	
3. Summarize all final amounts at the ACRN level.	
4. Determine the final amount due to the contractor or owed to the Government. For fixed price contracts, this amount should be the difference between the verified contract price and the verified amount paid on the contract, unless all deliveries were not made during contract performance. For cost type contracts, the amount should be the difference between the valid contractor billed amounts and amounts paid to the contractor by the Government. If the verified contract obligation amount is greater than the verified amount paid, and no additional payments are due, identify this amount as excess funds on the contract that can be deobligated.	

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A-1	Concluding Steps	
Version 1.0, October 2004		WP Reference
1. Summary Steps		
a. Summarize the results of audit. Provide the draft report to the DFAS Task Force representative or other appropriate regional personnel.		
b. Discuss results with the technical specialist and/or the regional DFAS Task Force representative and obtain final supervisory review. Coordinate significant issues with the requester, if applicable.		
c. Hold an exit conference with the contractor in accordance with CAM 4-304. Provide the draft report to the contractor, discuss each exception/finding, and request a response for inclusion in the final report. Incorporate the contractor's response and prepare the final report.		
d. If the evaluation discloses information that raises reasonable suspicion of fraudulent or other illegal acts, refer the matter by completing a DCAA Form 2000 (see CAM 4-702).		
2. Closing Actions		
Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:		
a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.		
b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.		
c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no		

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unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.	
d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.	
e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.	
f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.	
g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.	
h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.	
i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be	

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available for reference, generally on the LAN. This set should be deleted when no longer needed.	
j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.	
k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.	
l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).	
m. <u>Do Not File Sensitive Audits in iRIMS</u> : Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.	